

# Fiscal TOPICS

Published September 2017



## Senate File 257 — Motor Vehicle Fuel Tax Update

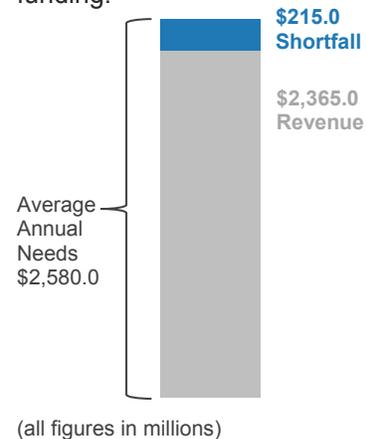
This Fiscal Topic will evaluate the history and implementation of [SF 257](#) (Motor Vehicle Fuel Tax Act) from the 2015 Legislative Session. The Act increased motor vehicle fuel excise taxes and modified certain permit fees to address road funding shortfalls.

**History.** In December 2011, the Department of Transportation (DOT) issued the [2011 Road Use Tax Fund \(RUTF\) Study](#). This study reviews the current revenue levels of the RUTF and the sufficiency of those revenues for maintenance and construction of the State's roadways. This study is conducted every five years as mandated by Iowa Code section [307.31](#). The DOT identified \$215.0 million of critical shortfall needs per fiscal year, due to rising costs of construction and flattening fuel consumption. Recommendations included increasing the fuel excise tax by 8 to 10 cents for each category of motor fuel excise taxes.

In 2015, the 86th General Assembly passed [SF 257](#) and the Bill was signed by the Governor on February 25, 2015. The Act contained the following provisions:

- Limited the term of indebtedness for certain county projects.
- Modified certain permit fees.
- Increased motor fuel excise tax rates.
- Established a fuel distribution percentage formula for certain special fuels.
- Extended the repeal date of the Access Iowa Highway Plan.

Prior to the enactment of SF 257, the DOT projected an **annual shortfall** in funding.

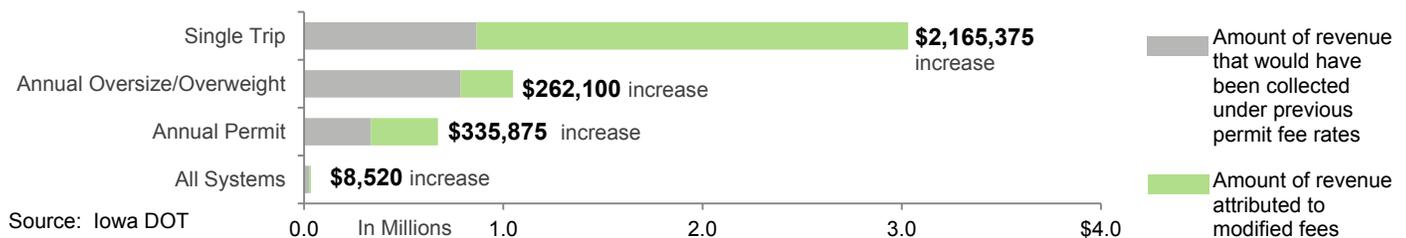


Source: Iowa DOT

**Implementation.** The Act specifies that any money credited to local authorities from the RUTF may not be used for paying principal or interest on debt. This took effect upon enactment and has no or little fiscal impact to the State.

Section 3 of the Act amended Iowa Code section [321E.14](#) by modifying certain permit fees. These permit fees took effect January 1, 2016. In 2015, the LSA estimated that permit fees would increase revenue to the Primary Road Fund (PRF) by \$3.4 million in FY 2017. It is now estimated that the change in permit fees increased revenue to the PRF by \$2.8 million in FY 2017. Since 2015, the number of the impacted permits issued has generally declined and not followed previous average growth rates. The fee increase from All Systems permits, which is deposited into the RUTF, is estimated to be minimal. The following chart illustrates how the change in fees increased revenue to the PRF in FY 2017 compared to the previous permit fee rates.

### Modified Permit Fees Revenue – FY 2017



#### More Information

Iowa General Assembly: [www.legis.iowa.gov](http://www.legis.iowa.gov)

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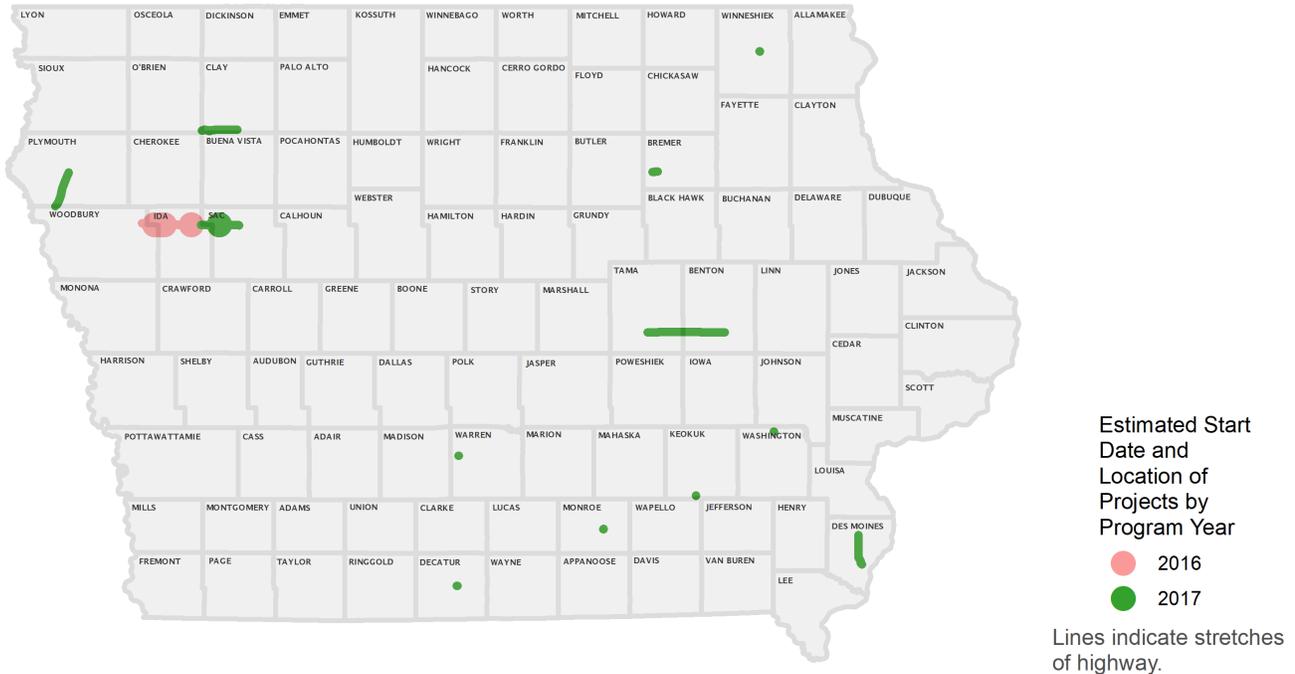
Section 6 of the Act amended Iowa Code section [452A.3](#) by increasing motor fuel excise tax rates. This took effect March 1, 2015. According to the DOT, the change in motor fuel excise taxes has increased revenue to the RUTF by an estimated \$220.0 million for both FY 2016 and FY 2017. From implementation in FY 2015, this brings the total estimate to approximately \$515.0 million in increased revenue. By using the RUTF formula for distribution, the chart shows how the increased revenue funds from motor fuel excise taxes have been distributed between the State and local authorities.

**Additional Motor Vehicle Fuel Tax Revenue Collected – FY 2015 - FY 2017**



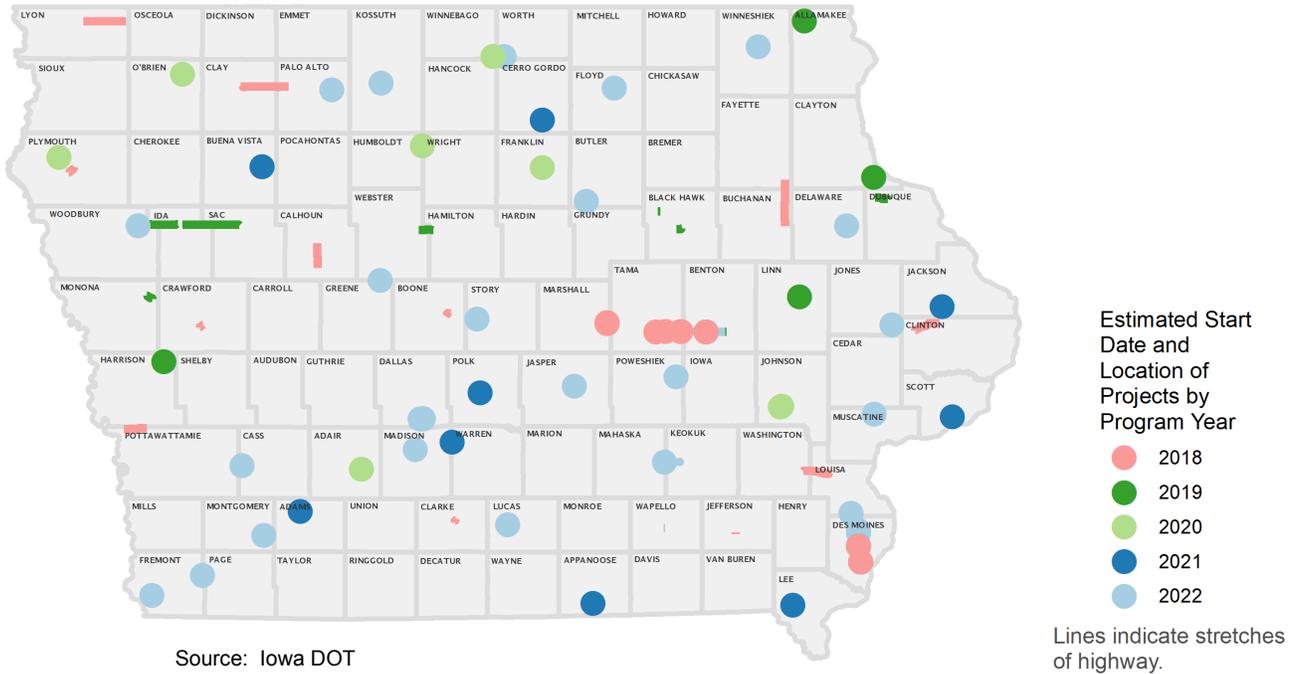
The DOT is required to use the increase in motor fuel excise tax revenue for critical road and bridge construction projects. The DOT identifies these projects in their annual [Five-Year Transportation Improvement Program](#) report. The following map highlights the projects that were programmed on the primary road system in FY 2016 and FY 2017, using an additional \$229.2 million in revenue from SF 257. Please note, some projects programmed in these years may not have been started, and may have moved into different program years.

**Projects Programmed Using Additional Revenue – FY 2016 - FY 2017**

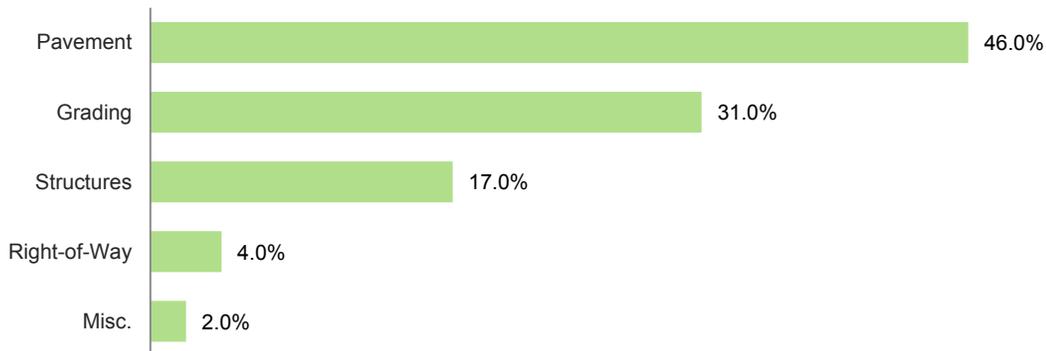


Under the current five-year improvement plan, the DOT estimates that there will be \$517.7 million in increased funding for programming between FY 2018 and FY 2022. The following graphics show the projects programmed by year and the type of projects programmed.

### Projects Programmed on Primary Roads Using Additional Revenue FY 2018 – FY 2022



### Primary Highway Projects Funded with Increased Revenue by Work Type – FY 2018 - FY 2022

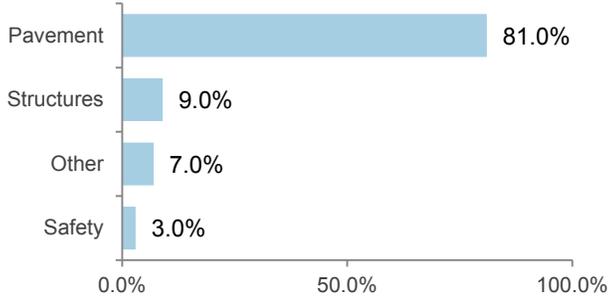


Source: Iowa DOT

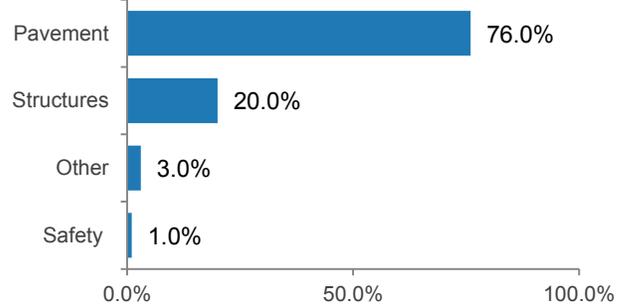
Cities and counties must use the increase in motor fuel tax revenue for critical road and bridge construction projects. In FY 2016, the DOT forecasted that each county received approximately a 14.6% increase in its Secondary Road Fund payments, and a 16.2% increase in its allotment of the Farm-to-Market Fund. See the Fiscal Update article [Secondary Road Fund Distribution Committee](#) for more information on how these funds are allocated to counties. In FY 2016, cities received an estimated 14.5% increase in funding from the RUTF through the Streets Construction Fund (SCF). A city's share of the SCF is based on the municipality's share

of population compared to the total municipal population in the State. In FY 2016, each city received \$120.5 per capita from the SCF. The following charts show the type of work local authorities have engaged in with the increased revenue in FY 2016.

**City Projects Funded with Increased Revenue by Work Type – FY 2016**



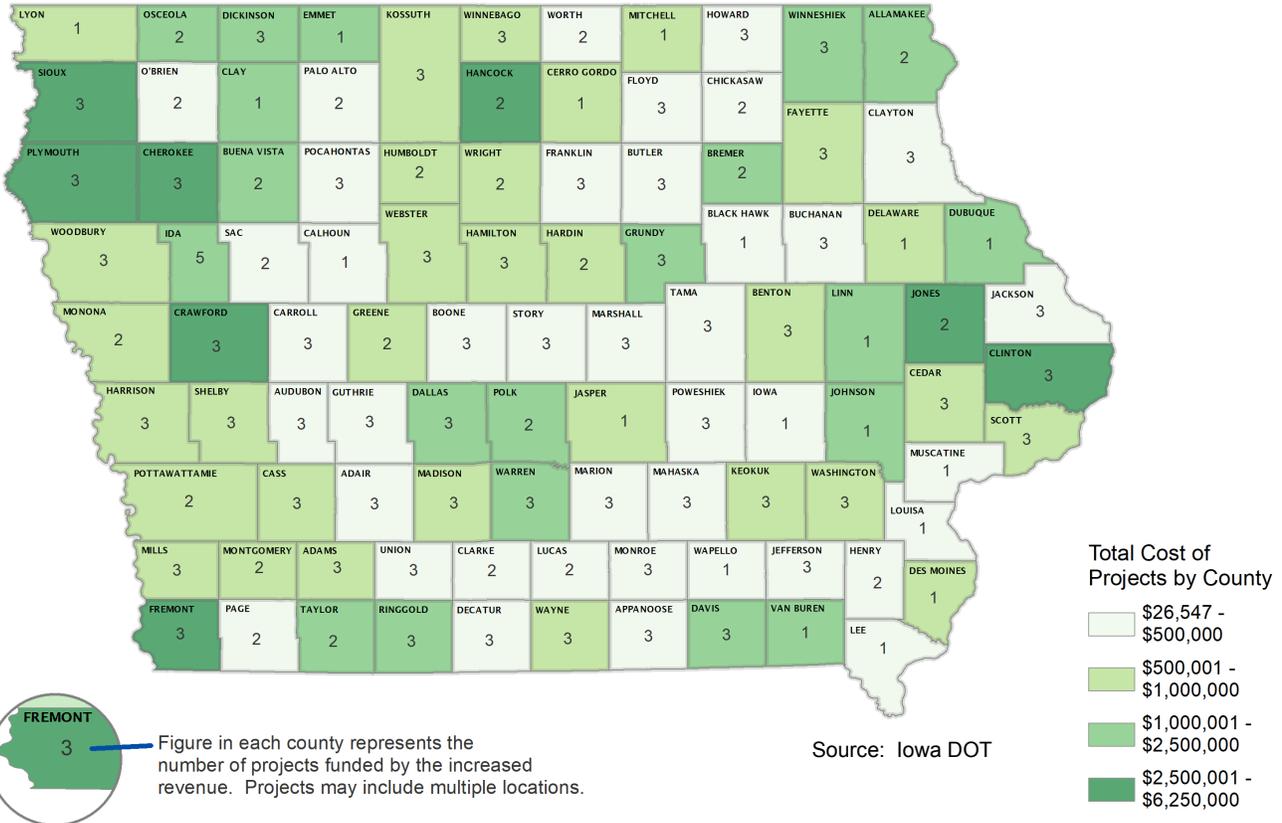
**County Projects Funded with Increased Revenue by Work Type – FY 2016**



Source: Iowa DOT

Using survey data from the DOT, the following map shows how an estimated \$97.8 million was being programmed on these critical projects by county in FY 2017. The number in each county represents the number of projects utilizing the increased revenue. Please note that project totals may include additional funding separate from the increased revenues generated by [SF 257](#).

**Projects Programmed on County Roadways – FY 2017**



Section 9 of the Act modified Iowa Code section [452A.3](#) by creating a biodiesel tax schedule similar to the gasoline/gasohol tax schedule. The excise tax on biodiesel (B-11 or higher) is determined by the market share of biodiesel distributed. Previously,

biodiesel was taxed at the same rate as diesel. Since FY 2016, the percentage of taxable biodiesel gallons has been less than 50.0%. The current excise tax rate on biodiesel is 29.5 cents per taxable gallon. The change in revenue from prior to [SF 257](#) enactment is included in the estimated increased revenue totals for FY 2016 and FY 2017. The following table displays the biodiesel tax schedule that took effect March 1, 2015, and highlights the current tax rate.

Biodiesel Tax Schedule		
(in cents)		
Biodiesel Market Share Percentage	Biodiesel Tax	Diesel Tax
<b>0% - 50%</b>	<b>29.50</b>	<b>32.50</b>
50% - 55%	29.80	32.50
55% - 60%	30.10	32.50
60% - 65%	30.40	32.50
65% - 70%	30.70	32.50
70% - 75%	31.00	32.50
75% - 80%	31.30	32.50
80% - 85%	31.60	32.50
85% - 90%	31.90	32.50
90% - 95%	32.20	32.50
95% - 100%	32.50	32.50

Source: Iowa Department of Revenue

The aviation jet fuel rate for aircraft increased from 3 cents to 5 cents. Tax revenue from aviation jet fuel is deposited into the State Aviation Fund (SAF). The SAF funds the Airport Improvement Program, which provides grants and funding to both commercial and general aviation airports in Iowa. As of July 2017, the SAF had received an estimated \$1.8 million in increased revenue since March 1, 2015.

Section 10 of the Act further modified Iowa Code section [452A.3](#). The tax rate for liquefied petroleum gas (LPG), compressed natural gas (CNG), and liquefied natural gas (LNG) increased by 10 cents per gallon under [SF 257](#). The fiscal impact from the tax increases for these special fuels is minimal.

Section 11 of the Act modified the repeal date for the Access Iowa Highway Plan from July 1, 2015, to July 1, 2025. The Access Iowa Highway Plan designates certain sections of the commercial and industrial network (CIN) of highways as Access Iowa highways in order to expedite development of direct linkages of economic centers within the State. This took effect upon enactment and has little or no fiscal impact to the State. The PRF receives a statutory allocation of 10.0% of total motor vehicle registration fees collected for the CIN. In FY 2017, this allocation was estimated to be \$36.0 million.

The Act also required the DOT to file reports to identify \$10.0 million in efficiencies in [FY 2015](#) and [FY 2016](#). As of December 2016, the Department cited \$38.5 million in program efficiencies.